

Message Text

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PAGE 01 PARIS 11676 01 OF 03 071913Z

51

ACTION COME-00

INFO OCT-01 EUR-12 IO-10 ISO-00 EB-07 TRSE-00 INT-05 GSA-01

OMB-01 CIEP-01 STR-04 CIAE-00 INR-07 NSAE-00 NEA-09

PA-01 PRS-01 USIA-06 /066 W

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P 071900Z MAY 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 9192

INFO AMEMBASSY LONDON PRIORITY

USDEL MTN GENEVA PRIORITY

USMISSION EC BRUSSELS PRIORITY

LIMITED OFFICIAL USE SECTION 01 OF 03 PARIS 11676

E.O. 11652: N/A

TAGS: EIND, ETRD, XG

SUBJECT: FRENCH STEEL MARKET CONDITIONS

REF: (A) STATE 095936; (B) USMISSION BRUSSELS 3989

SUMMARY: THIS MESSAGE CONTAINS AVAILABLE INFO REQUESTED IN REF (A) REGARDING FRENCH RAW AND FINISHED STEEL PRODUCTION, CAPACITY UTILIZATION, PROJECTED OUTPUT FOR 1975, CURRENT STEEL CONSUMPTION, CURRENT INVENTORY LEVELS, AND ANTICIPATED VOLUME OF EXPORTS TO U.S. ALSO INCLUDED IS COMMENTARY ON SIGNIFICANCE OF RECENT FRENCH INDUSTRY STATEMENT SEEKING SOME FORM OF STEEL CONTROLS AND FUTURE INTENTIONS OF FRENCH INDUSTRY. END SUMMARY.

1. FOLLOWING ASSESSMENT IS BASED PRINCIPALLY ON INFORMATION PROVIDED BY FRENCH IRON AND STEEL TRADE ASSOCIATION. HOWEVER, OFFICIALS OF USINOR -- ONE OF TWO GIANT COMPANIES IN FRENCH STEEL INDUSTRY -- WERE ALSO CONSULTED.

2. FRANCE PRODUCED 6,123,000 M/T OF RAW STEEL IN FIRST LIMITED OFFICIAL USE

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PAGE 02 PARIS 11676 01 OF 03 071913Z

QUARTER OF 1975. THIS CONSTITUTES 14.6 PERCENT DE-

CREASE RELATIVE TO COMPARABLE PERIOD LAST YEAR. FRENCH STEEL MILLS PRESENTLY OPERATING AT ABOUT 65 PERCENT OF TOTAL THEORETICAL CAPACITY WHICH IS IN FACT ABOUT 75 PERCENT OF MAXIMUM POSSIBLE PRODUCTION (FRENCH PRODUCTION HAS NEVER EXCEEDED 90 PERCENT OF TOTAL THEORETICAL CAPACITY ACCORDING TO TRADE ASSOCIATION OFFICIAL). OUTPUT FOR 1975 NEARLY IMPOSSIBLE TO PROJECT. WE HAVE NOT FOUND ONE CONTACT EVEN WILLING TO ATTEMPT IT. POSSIBLE PROJECTIONS COMPLICATED BY NUMEROUS FACTORS. FRANCE, FOR EXAMPLE, NOW EXPORTING INCREASINGLY OUTSIDE OF EC AND US. THESE NEW MARKETS, PARTICULARLY IN MIDDLE EAST, ARE EXTREMELY VOLATILE AND DIFFICULT TO PREDICT. AS FOR DOMESTIC SCENE, CURRENT GENERAL STRIKE AT USINOR-DUNKIRK THREATENS TO SPREAD TO FIRM'S OTHER MILLS, THUS FURTHER DIMINISHING PRODUCTION. ON THE OTHER HAND, CREDIT AND SUPPORTIVE MEASURES RECENTLY ANNOUNCED BY GOF COULD INCREASE DEMAND FOR STEEL IN BOTH PRIVATE AND PUBLIC (HLM) HOUSING SECTORS BY END OF 1975. GIVEN RELATIVE LABOR PEACE, FRENCH PRODUCTION COULD RESPOND RAPIDLY TO THIS DEMAND.

3. FINISHED PRODUCT PRODUCTION TOTALLED 3,138,000 M/T FOR FIRST TWO MONTHS OF 1975, DECREASE OF 12 PERCENT FROM COMPARABLE PERIOD PREVIOUS YEAR.

4. FRENCH REAL CONSUMPTION OF STEEL PRODUCTS FOR FIRST QUARTER OF 1975 IS ESTIMATED TO BE DOWN 8-10 PERCENT IN COMPARISON WITH 1974. FRENCH DEFINE REAL CONSUMPTION AS WHAT LEAVES WAREHOUSE OF CONSUMING INDUSTRIES AND ENTERS CYCLE OF PRODUCTION. ON THE OTHER HAND, DOMESTIC APPARENT CONSUMPTION IS DOWN CONSIDERABLY MORE. TRADE ASSOCIATION ESTIMATES DOMESTIC APPARENT CONSUMPTION TO BE ABOUT 10,821,000 M/T (RAW STEEL EQUIVALENT) FOR FIRST SIX MONTHS OF 1975, CONSTITUTING DECREASE OF 18-20 PERCENT FROM 1974 (FRENCH DOMESTIC APPARENT CONSUMPTION WAS 13,527,000 M/T FOR FIRST SIX MONTHS OF 1974 AND 25,861,000 M/T FOR ENTIRE YEAR). FIGURES ARE CALCULATED ACCORDING TO EC DEFINITION, I.E. WIRE PRODUCTS AND TUBES ARE EXCLUDED. BASIC DIFFERENCE BETWEEN REAL DEMAND AND APPARENT DEMAND IS THAT REAL DEMAND STATISTICS DO NOT LIMITED OFFICIAL USE

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PAGE 03 PARIS 11676 01 OF 03 071913Z

TAKE INTERMEDIATE TRADE FIGURES INTO CONSIDERATION.

5. DOMESTIC APPARENT DEMAND IS NOT EXPECTED TO TURN UP UNTIL LATE THIS YEAR OR EARLY NEXT IN 1976. USINOR OFFICIAL EXPRESSED HOPE THAT INVENTORIES WOULD BE DRAWN DOWN TO NORMAL LEVELS BY MID-SUMMER WITH RESULTING RE-ORDERS TOWARD END OF YEAR. EXPORT DEMAND IS CONSIDERED COMPLETELY UNPREDICTABLE BY OUR SOURCES. FOR EXAMPLE,

FRENCH DOMESTIC CONSTRUCTION STARTS WERE DOWN 16 PERCENT
IN 1974. FRENCH STEEL INDUSTRY COMPENSATED BY EXPORTING
CONSIDERABLE QUANTITIES OF STEEL RE-INFORCING BAR TO
LDC'S. HOWEVER, THIS DEMAND DRIED UP IN FALL OF 1974
WHEN LDC'S RAN OUT OF CONCRETE. ANOTHER EXAMPLE, FRENCH
EXPORTED 154,000 M/T OF RAILS TO MIDDLE EAST IN APRIL

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PAGE 01 PARIS 11676 02 OF 03 071913Z

51

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FM AMEMBASSY PARIS

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LIMITED OFFICIAL USE SECTION 02 OF 03 PARIS 11676

1975. THIS WAS UNEXPECTED AMOUNT AND PROBABLY NOT
REPEATABLE. IN GENERAL, EXPORT DEMAND IS HOLDING UP.

6. PARIS ECONOMIC DAILY LES ECHOS IN MAY 7 ARTICLE HAD
MORE PESSIMISTIC TONE THAN OUR SOURCES REGARDING STEEL
MARKET CONDITIONS. ARTICLE ENTITLED "ALWAYS BAD"
REPORTED NO CHANGE IN ORIENTATION OF STEEL MARKET,
DOMESTIC AND EXPORT, FOR APRIL. IT STATED MARCH 1975
DOMESTIC ORDERS WERE DOWN 30-35 PERCENT AND TOTAL
ORDERS DOWN 25-27 PERCENT IN COMPARISON WITH MARCH 1974.
CONDITIONS FOR APRIL 1975 IN RELATION TO PREVIOUS
MONTH WERE REPORTED AS SOMEWHAT BETTER ON DOMESTIC

MARKET BUT LESS IMPROVED ON EXPORT MARKET. IN LES ECHOS' VIEW, STEEL INDUSTRY REMAINS AT DEPTH OF ITS CRISIS.

7. ALL SOURCES REPORT THAT INVENTORY LEVELS IN THE STEEL INDUSTRY ARE NORMAL OR APPROACHING NORMAL. INVENTORIES VARY ACCORDING TO NATURE OF PRODUCTS. CONSUMERS ARE GENERALLY ATTEMPTING TO HOLD INVENTORIES JUST EQUAL TO THEIR NEEDS. THIS DESIRE IS FACILITATED LIMITED OFFICIAL USE

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PAGE 02 PARIS 11676 02 OF 03 071913Z

BY FACT THAT DELAYS IN MOST DELIVERIES HAVE BEEN CONSIDERABLY SHORTENED. NO ESTIMATES FOR THESE CONSUMER INDUSTRY INVENTORIES ARE AVAILABLE. HOWEVER, ABOUT 3 MILLION M/T ARE STOCKED IN STEEL MILLS OF WHICH 2 MILLION M/T ARE INGOTS, SEMI-FINISHED PRODUCTS, AND COILS. ABOUT 1.3 MILLION M/T OF FINISHED PRODUCTS ARE BEING HELD IN TRADE CENTERS. TRADE ASSOCIATION OFFICIAL COMMENTED FRENCH SITUATION IS NOT ANALOGOUS TO THAT OF BRITISH WHO ARE SEVERLY OVER-STOCKED.

8. REGARDING ANTICIPATED VOLUME OF EXPORTS TO U.S., FRENCH TRADE ASSOCIATION IS NOT SANGUINE. RELATIVE STRENGTH OF FRENCH FRANC VIS-A-VIS THE DOLLAR WILL CERTAINLY NOT HELP AND CURRENT APPARENT DEMAND IN U.S. IS WEAK. HOWEVER, SOME INDEPENDENT U.S. FABRICATORS WILLING TO PAY DEARLY FOR CERTAIN PRODUCTS, WIRE RODS FOR TRANSFORMATION TO WIRE MOST RECENTLY, AND THIS HAS HELPED FRENCH EXPORTS. ACCORDING TO TRADE ASSOCIATION STATISTICS, TOTAL FRENCH STEEL EXPORTS TO U.S. IN 1974 WERE 513,482 M/T. USINOR SOURCE CLAIMS SOME SLOWDOWN THIS YEAR IN HIS FIRM'S EXPORTS TO U.S. DUE TO HIGH LEVEL OF U.S. INVENTORIES. EVEN WITH INCREASING COSTS TO FRENCH PRODUCERS (U.S. COAL, OTHER FUEL, SCRAP, AND LABOR), THE EXPORT PRICE TREND HAS BEEN DOWNWARD. CURRENT FRENCH STEEL PRICES ARE 15 PERCENT BELOW THOSE OF FEBRUARY 1975. FRENCH TEMPORARY PRICE CUT FOLLOWED 20 PERCENT CUTS BY BELGIUM FIRMS ACCORDING TO TRADE ASSOCIATION. INTERNATIONAL PRICES, ACCORDING TO SAME SOURCE, HAVE BEEN ROCKETING UP AND DOWN, SUBJECT TO WILD COMPETITION. INTERNATIONAL PRICE SUMMIT WAS REACHED IN JULY 1974. FRENCH INDEX OF EXPORT PRICES IS NOW REACHING SAME LEVEL AS THAT OF MID-1973. PRICE DROP HAS LEVELED OFF DUE PARTIALLY TO INCREASING COSTS. WITH INDEX BASE OF 100 AS WEIGHTED AVERAGE PRICE FOR 1967 FRENCH EXPORT INDEX WAS 150 AT BEGINNING OF 1973. INDEX IS NOW AT APPROXIMATELY 200 BASED ON FRENCH FRANCS OR 250 WHEN CONVERTED TO U.S. DOLLARS AT THE CURRENT RATE OF EXCHANGE, THIS SPREAD BEING DUE TO DECLINE OF THE DOLLAR RELATIVE TO FRANC. TRADE ASSOCIATION SEES POSSIBILITY OF MORE STABLE PRICE LEVEL FOR REST OF YEAR.

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PAGE 03 PARIS 11676 02 OF 03 071913Z

9. REFTEL SPECIFICALLY REQUESTED OUR COMMENTS REGARDING
SIGNIFICANCE OF RECENT FRENCH INDUSTRY STATEMENT SEEKING

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PAGE 01 PARIS 11676 03 OF 03 071914Z

51

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LIMITED OFFICIAL USE SECTION 03 OF 03 PARIS 11676

SOME FORM OF CONTROLS ON IMPORTED STEEL AND FUTURE
INTENTIONS OF FRENCH INDUSTRY. JACQUES FERRY, PRESIDENT
OF FRENCH IRON AND STEEL TRADE ASSOCIATION AND VICE
PRESIDENT OF FRENCH PATRONAT, STATED ON MARCH 25 THAT
EUROPEAN IRON AND STEEL INDUSTRY HAD ENTERED INTO STATE
OF "MANIFEST CRISIS" AND CALLED FOR INVOKING ARTICLES
58 AND 74 OF EUROPEAN COAL AND STEEL AGREEMENT, I.E.
QUOTAS FOR EUROPEAN PRODUCTION, FIXING OF MINIMUM
PRICES AND QUANTITATIVE RESTRICTIONS ON IMPORTS. OUR

SOURCES BOTH AT USINOR AND TRADE ASSOCIATION DO NOT TAKE STATEMENT AT FACE VALUE. USINOR OFFICIAL STATED FERRY, WHILE EXAGGERATING PRESENT CONDITIONS, HAD NEVER-THELESS PERFORMED VITAL FUNCTION IN FOCUSING ATTENTION ON CRITICAL SITUATION; THIS WAS HIS TRUE INTENT AND ACTUAL INVOKING OF SAFEGUARD CLAUSES NOT REALLY ENVISAGED. TRADE ASSOCIATION SOURCE ESSENTIALLY AGREED WITH THIS INTERPRETATION, ADDING FERRY - ACTING IN CAPACITY OF PATRONAT VICE PRESIDENT - WAS ACTUALLY SEEKING GOV ACTION TO STIMULATE ECONOMY. AS FOR INVOKING OF SAFEGUARD CLAUSES, OUR VIEW - BASED ON LIMITED OFFICIAL USE

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PAGE 02 PARIS 11676 03 OF 03 071914Z

WIDE CONTACTS IN FRENCH STEEL SECTOR - IS THAT THEIR ACTUAL INVOCATION AT THIS TIME IS NOT REPEAT NOT DESIRED BY FRENCH STEEL INDUSTRY. WHAT APPARENTLY IS WANTED ARE INDIRECT MEASURES BY EC COMMISSION TO HELP INDUSTRY ADJUST PRODUCTION TO DEMAND. THIS VIEW CAN BE SUPPORTED BY FACT THAT FOLLOWING FERRY'S STATEMENT AND SUBSEQUENT REJECTION BY EC COMMISSION, THERE HAS BEEN LITTLE IF ANY CLAMOR IN FRANCE FOR EXTREME MEASURES CALLED FOR IN PERIOD OF "MANIFEST CRISIS". ANOTHER FACTOR, PROBABLY INFLUENCING GENERAL LOW-KEY APPROACH OF FRENCH INDUSTRY TO THIS QUESTION AT PRESENT IS UP-COMING U.K. REFERENDUM ON REMAINING WITHIN EC. HEAVY HANDED INVOKING OF CLAUSES BY EC COMMISSION AT THIS JUNCTURE COULD VERY LIKELY HAVE ADVERSE EFFECT ON BRITISH PUBLIC OPINION WHICH CAN HARDLY BE CONSIDERED AS DISPOSED TOWARD DIRIGISME FROM BRUSSELS.

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